

Corporate Directors' Compensation
1987 Edition

Report No. 891

The Conference Board



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American Society of Corporate Secretaries, Inc.

1270 Avenue of the Americas
New York, New York 10020
(212) 765-2620

The Conference Board, Inc.	The Conference Board, Inc.	The Conference Board, Inc.	The Conference Board of Canada
845 Third Avenue	Avenue Louise, 207-Bte 5	1755 Massachusetts Avenue, N.W.	255 Smyth Road
New York, New York 10022	B-1050 Brussels, Belgium	Suite 100	
(212) 759-0900	(02) 640 62 40	Suite 312	Ottawa, Ontario, K1H-8M7
RCA International Telex	Telex: 63635	Washington, D.C. 20036	(613) 526-3280
237282 and 234465		(202) 483-0580	

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Corporate Directors' Compensation 1987 Edition

by Jeremy Bacon

A Research Report from The Conference Board



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Highlights

- Forty-one percent (369) of the respondents gave some form of pay raise to their outside directors this past year; 18 firms in the sample *reduced* pay.

- *Pay raises* granted by those companies that gave them were substantial enough to *increase the median annual pay by 15 percent in financial companies, by 11 percent in manufacturing companies, and by 5 percent in nonfinancial service companies*. Increases for the first two industry groups cited were considerably larger than the modest 5 percent and 0.5 percent gains, respectively, posted the year before; Table 1, p. 3.

- *In the biggest manufacturing companies* (\$5 billion or more in sales), *median total annual compensation increased by 3 percent*, a figure very similar to last year's 4 percent. The 1986 median: \$34,358; Table 3, p. 4.

- *Median annual retainers for board service were up* by \$1,000 in manufacturing; by \$1,600 in financial firms; and by \$1,500 in the nonfinancial service category; Table 12, p. 9. For firms in the \$5 billion group, median retainers now stand at \$20,000 (unchanged) in manufacturing, \$18,000 in nonfinancial service companies (up \$2,500), and \$13,500 for financials (a gain of \$1,500); Table 13, p. 10.

- *Median attendance fees also increased*: The median fee per board meeting for manufacturing companies is now \$750; Table 14, p. 10.

- Thirty-six companies (4 percent) use company stock to some extent in paying their outside directors. In about a third of these cases, payment of stock is in lieu of cash at the option of individual directors; p. 8.

- Almost every company surveyed has at least one board committee, and *89 percent of these companies give extra com-*

pensation to their directors for committee service; Table 19, p. 13, usually in the form of a per-meeting fee; Table 20, p. 13.

- *Committee chairmen get more pay than regular members in 43 percent* of the companies having committees, which is identical to last year's figure. Committee chairmen most often get their extra compensation in the form of a retainer; Tables 24, 25 and 26, pp. 14, 15.

- Financial companies have more board committees than companies in other types of industries; more than half of the financial firms have at least five committees; Table 27, p. 15.

- Outside directors of 81 percent of the companies in the sample receive at least one kind of benefit, *not counting directors and officers liability insurance*, in addition to cash compensation. This figure is up from 73 percent last year. Eighty-eight percent do carry D&O insurance (last year's figure was 85 percent), but there was a broad decline in the dollar limits of coverage provided by such policies; Table 33, p. 19.

- The most popular benefit (omitting D&O) is an arrangement for deferring receipt of board compensation; 56 percent offer their directors such a plan, making this the only benefit other than D&O that is found among a majority of the respondents. Travel accident insurance, the next most popular benefit, is provided by 40 percent, and 35 percent have donation-matching programs. All other benefits are found in fewer than 20 percent of the companies; Table 31, p. 18.

- Outside directors of 18 percent of the companies enjoy pension benefits, up from 15 percent last year. A breakdown by company size shows that such plans have been instituted primarily by larger companies so far; Table 32, p. 19.



Why This Report

This latest Conference Board annual report on compensation of outside directors comes at a turbulent time for board members. In recent years directors have been coping with expectations that they will bear a heavier workload in the corporate governance process, and have confronted the challenges of takeovers and other key issues. Now a shrinkage in insurance protection for directors—perhaps temporary, but certainly alarming—has made the unique accountability that goes with board service a crucial concern of top management.

Whether those who are qualified to act as directors will continue to do so is a matter of urgent importance to U.S. business. For this reason, information about compensation for board service is especially valuable. This report shows that compensation of directors continues to rise. But it also confirms a widespread drop in the dollar amount of the in-

surance coverage that protects outside board members against personal loss.

The report is designed to help corporate managements assess their own board compensation levels by giving them reliable data on current and developing practices. It contains detailed information on how 928 U.S. corporations are paying their directors as of June, 1986, by industry and by size of company.

Most of the survey cooperators are members of the American Society of Corporate Secretaries, a brief description of which appears on the inside front cover. Many have been cooperators in this series of surveys for a long period of years. We thank them most sincerely for their loyal participation. We also appreciate the assistance from the National Office of the Society.

JAMES T. MILLS
President

Method, Sample and Terminology

About Data Collection

The information for this report was collected during May and early June of 1986 by means of a questionnaire that was sent to the members of the American Society of Corporate Secretaries, plus a small number of additional firms. The total number of respondents on which the figures in the report are based is 928: 432 manufacturers, 205 financial companies, and 291 nonfinancial service firms. All respondents are United States companies and, in almost all cases, they are independent or parent companies, rather than subsidiaries.

About Data Analysis

Industry and size categories

For analytical purposes, data are broken down in one of three ways:

- By three major industry categories (manufacturing, financial, nonfinancial service);
- By individual industries (41 in all) within those categories;
- By company size, using 14 size groups ranging from under \$10 million to over \$5 billion in sales, except for financial firms, whose size is measured in total assets.

Percentages and central tendencies

In most cases, the base used for calculating percentages is the number of companies that answered the particular question or part of a question. Companies that did not reply, or indicated that the question is not applicable, are omitted from the calculation.

Medians

Medians, rather than mathematical averages (means), are usually used to show representative or typical values. A

median is the middle value in a distribution arrayed by size, above and below which lie an equal number of values.

Survey samples

The companies that respond are not always the same from one survey to the next. Thus, measurements of change between surveys are based on statistics from comparable samples, not change within an identical repeated sample.

Total annual compensation

The study uses a figure that is unique to this series: *total potential annual compensation (regular board service plus committee service) to representative outside directors*. In most cases this figure is provided specifically by the survey respondent; in other cases, it is calculated. It represents what a typical director of a given company makes in a year, if he or she attends all required board and committee meetings. We believe it to be the best single indication of board pay for use in comparing companies.

Terminology

This report deals only with compensation of the *outside director*, which for this purpose means a director who is not presently an employee of the company. The term *retainer* indicates in every case an amount paid on an annual basis (although it may actually be paid out in installments during the year), and that is not directly related to and does not depend on attendance at board (or committee) meetings. The term *fee* means an amount paid for attendance on a per-meeting basis.

"*Regular board service*" refers to meetings and other work of the *full board*, as distinguished from service as a member of one or more board committees.

Chapter 1

Total Annual Compensation of Outside Directors

THIS CHAPTER contains information about how much outside directors make for a year's board work, including committee service. It presents this information by major industry category (manufacturing, financial, nonfinancial service), by 41 specific industries, and by company size within industry categories. It includes both dollar figures and amounts and percentages of increase (or decrease) since the 1985 survey. It also compares directors' pay levels in nine regions of the country, based on the locations of corporate headquarters of cooperators.

All tables in the chapter are based on one figure for each company, representing what the most typical outside director on that company's board can expect to earn in a year. (See box.) Later chapters deal separately with board-only compensation and with committee compensation.

Increases Since 1985

Forty-one percent of the respondents gave some form of pay raise to their outside directors this past year. This is down, although only slightly, from the 43 percent that had increased board compensation last year, and down somewhat more from the 47 percent that had reported a raise two years ago. Eighteen firms *reduced* board compensation from last year; in the previous survey, only 10 companies out of 956 companies had done so.

Even though only two out of five companies increased directors' pay, those increases gave a marked boost to median total annual compensation figures over those of last year. Table 1 shows these figures for the three major industry categories:

- Financial companies showed the largest gain—15 percent—in median total annual compensation, a considerably larger jump than the 5 percent of last year and 6 percent of the year before.
- The median annual pay figure in manufacturing went up 11 percent; last year the manufacturing group showed almost no increase.
- Nonfinancial service companies showed a 5-percent gain in the median annual compensation figure.

It would appear from these figures that last year's modest increases indicated a pause rather than an end to increases in pay for directors.

About the Total Potential Annual Compensation Figure

One of the basic purposes of this survey is to provide a basis for useful comparisons. In particular, we have in mind the corporate reader (or director) who wants to see how his or her company's directors' compensation compares with that of companies of similar size in the same or a similar industry or industries. Thus, The Conference Board survey in recent years has emphasized one figure in particular for each participating company: how much a *typical* outside director of that company can expect to make, in total, for a full year's service on the board, counting committees. This figure serves as the basis for the tables presented in this chapter.

We call this figure "total potential annual compensation (regular board service plus committee service) to representative outside directors." It is based on the assumption that the typical director attends, and therefore is paid for, every board meeting and every meeting of every board committee on which he or she serves. It is the *potential* compensation for full participation.

Because the figure is for what the *most representative or typical* director on that board makes, some directors will make more, some less, depending on committee assignments or chairmanships.

How Compensation Was Increased

Of the 369 companies that increased their pay to outside directors over last year, 349 indicated whether that increase was for regular *board* service, for board *committee* service, or for both. A majority of 57 percent increased only the basic board service pay; 36 percent increased pay for both; the remaining 7 percent raised only compensation for committee service. In a few cases the "increase" for committee pay was really a matter of instituting such pay for the first time.

Over 80 percent of the companies that raised compensation for regular board service accomplished this in whole or in part by increasing the amount of the annual retainer. Thus, 50 percent raised *only* the retainer, while another 32 percent increased *both* the retainer and the fee paid per board meet-

ing attended. The remaining 18 percent increased only the per-meeting fee.

Only a minority of the companies that increased their annual retainer specified the *amount* of the increase. *The most popular boost* reported (by 31 of the 98 companies that provided the information) was \$2,000. Other increases, listed by frequency of mention: \$1,000 (21 firms), \$1,500 (8), \$4,000 (6), \$2,500 (5), \$1,200 (4), plus other amounts ranging from as low as \$300 to as much as \$6,000.

A few companies started paying an annual retainer for the first time. Two firms added a payment of common stock to an existing cash retainer (and a third increased the existing stock portion of the retainer from 150 shares to 500). Two companies discontinued meeting-fee payments when they beefed up the annual retainer.

The most frequently mentioned increase in the board-meeting fee was \$100, followed by \$50. Other fee increases range from \$25 up to \$1,000, with most falling in the range of \$150 to \$300.

Compensation in Manufacturing Companies—by Industry

Table 2 presents information for 25 individual industries within the manufacturing category. It shows that median pay increased in most industries and that declines in the five industries in which there was a drop were small (under 5 percent) in most cases.

Among industries represented by at least 10 companies in the 1986 survey, the drug and pharmaceutical industry has the highest median annual compensation figure: \$32,200. Other industries whose medians put them in the top five are food, printing and publishing, paper and conglomerates. The median for all manufacturing companies combined is \$21,000.

Compensation in Manufacturing Companies—by Company Size

Table 3 gives figures for manufacturing firms on the basis of company size. In manufacturing, more than in the other two industry categories, it continues to be generally true that the larger the company, the higher the compensation of its directors. The median for the largest group (sales of \$5 billion) now stands at \$34,358, which represents a 3-percent gain over 1985.

The ranges shown in the table indicate that the highest-paying companies often pay \$10,000 or more above the median figure for the size group.

Compensation in Financial Companies—by Industry

Figures for financial companies (again, median figures for total potential annual compensation) appear in Tables 4 and 5. Table 4 shows that mutual life insurance companies continue to pay more—\$27,500 for the median firm, a figure unchanged from last year—than companies in other financial industries.

Compensation in Financial Companies—by Company Size

Among the financial companies, directors' pay is not as closely related to company size (which is measured in *assets* for financial firms) as is the case with manufacturing companies, as Table 5 indicates. However, the highest median as well as the highest top-of-the-range amount are found in the largest size category, where 36 percent of all the financial firms responding to this survey are found.

In this industry category, there is no pattern in increases or decreases related to company size.

Compensation in Nonfinancial Service Companies—by Industry

Figures for the third major industry category are found in Tables 6 and 7. The service industry with the highest annual median level in the 1986 survey (Table 6) is transportation (\$24,500), followed by retail merchandising and then widely diversified companies. The overall median for all nonfinancial firms combined is \$17,200.

Compensation in Nonfinancial Service Companies—by Company Size

Table 7 shows that directors' compensation in this industry category tends to increase as company size increases, especially for larger companies. However, the correlation between pay and company size is not quite as definite as it is for manufacturing firms.

The median annual compensation figure for the biggest nonfinancial service firms is now \$31,200.

Regional Differences in Directors' Compensation

In Tables 8, 9 and 10, companies in the three major industry categories are grouped into nine geographic regions according to corporate headquarters addresses. The tables show medians of total annual director pay for companies in each of these regions. The accompanying box indicates the states comprising each region.

Median compensation of directors of manufacturing companies shows a wide spread among regions (Table 8). Manufacturing companies in New England and the Mid-Atlantic states pay best (15 percent higher than the median for all manufacturers), and their median compensation figures are roughly double that of the \$12,000 shown for the Mountain states. Financial companies show a similar spread between the highest and lowest regional medians (Table 9). The spread is less pronounced—a difference of under \$6,000—for nonfinancial service companies (Table 10).

These tables also contain a separate comparison of median pay levels for the larger companies, those with sales of \$3 billion or more (assets, for financial firms). These comparisons show a spread of about \$14,000 between the highest and lowest regional medians for financial companies, whereas comparable spreads in the other two industry categories are little more than half that amount.

The Geographic Regions Used for Comparison of Directors' Compensation

New England

(Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut)

Mid-Atlantic

(New York, New Jersey)

Upper Southeast

(Delaware, Maryland, Virginia, West Virginia, Kentucky, North Carolina, South Carolina)

Lower Southeast

(Tennessee, Georgia, Alabama, Mississippi, Florida)

Central Industrial States

(Pennsylvania, Ohio, Michigan, Indiana, Illinois, Wisconsin)

Plains States

(Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas)

Southwest

(Arkansas, Louisiana, Oklahoma, Texas)

Mountain States

(Montana, Wyoming, Colorado, New Mexico, Idaho, Utah, Arizona, Nevada)

Pacific

(Washington, Oregon, California, Alaska, Hawaii)

Table 1: Amounts and Increases of Median Total Potential Annual Compensation¹ for Outside Directors in the Three Major Industry Categories, for 1985 and 1986

	1985		1986		
	Median Total Potential Annual Compensation	Percent of Increase Over 1984	Median Total Potential Annual Compensation	Amount of Increase Over 1985	Percent of Increase Over 1985
Manufacturing companies	\$19,000	0.5%	\$21,000	\$2,000	11%
Financial companies	\$14,975	5%	\$17,200	\$2,225	15%
Nonfinancial service companies ²	\$17,200	7%	\$18,000	\$ 800	5%

¹Based on amount paid to average or most representative board member(s) in each company, as determined and reported by respondents. Figures assume attendance at all meetings of board and assigned committees.

²Includes 8 mining companies.

Table 2: Total Annual Compensation (Regular Board Service Plus Committee Service) to Representative Outside Directors in 433 Manufacturing Companies, by Industry¹

Industry	Number of Companies	Range of Compensation	1985 Median Annual Compensation (455 Companies)	1986 Median Annual Compensation (433 Companies)	Percent Increase (Decrease)
Aerospace, aircraft and parts	24	\$ 6,400-\$45,000	\$19,000	\$21,750	14%
Apparel and related products	8	\$ 9,500-\$29,500	\$14,250	\$16,300	14
Chemicals, paints and related products	18	\$ 2,000-\$45,500	\$20,200	\$21,700	7
Conglomerate or widely diversified	55	\$ 8,000-\$42,600	\$23,400	\$22,750	(3)
Construction materials and components (excluding lumber)	12	\$ 5,000-\$29,000	\$17,313	\$20,325	17
Containers, packaging	5	\$15,000-\$20,700	\$22,000	\$16,000	(27)
Drugs, pharmaceuticals, cosmetics, soaps	20	\$10,000-\$47,000	\$21,250	\$32,200	52
Electrical industrial equipment	14	\$10,200-\$40,000	\$16,800	\$20,325	21
Food, beverages and related products	22	\$ 5,000-\$54,000	\$25,000	\$28,350	13
Instruments, controls, optical products	14	\$ 4,000-\$32,000	\$16,250	\$16,000	(2)
Lumber	6	\$14,600-\$36,000	N/A	\$21,400	N/A
Machinery: general industrial	15	\$ 6,000-\$32,000	\$16,650	\$20,800	25
Machinery: metalworking and special	9	\$ 4,800-\$24,500	\$17,725	\$12,500	(29)
Miscellaneous consumer products	25	\$10,800-\$40,250	\$18,000	\$21,000	17
Miscellaneous industrial products	16	\$ 8,500-\$27,000	\$16,500	\$18,250	11
Motor vehicles and parts	13	\$ 6,500-\$49,250	\$21,000	\$22,200	6
Nonferrous metals	7	\$12,800-\$33,300	\$16,075	\$16,500	3
Office equipment, computers, electronics	41	\$ 1,600-\$39,000	\$14,325	\$15,500	8
Paper and allied products	18	\$10,000-\$38,000	\$23,000	\$22,850	(1)
Petroleum products (including exploration)	43	\$ 2,000-\$47,850	\$18,750	\$22,000	17
Printing, printing products, publishing	18	\$10,000-\$32,800	\$22,000	\$23,125	5
Rubber products	5	\$ 6,000-\$32,000	\$17,500	\$24,000	37
Steel, iron	8	\$12,000-\$25,600	\$20,213	\$19,500	(4)
Textiles	10	\$ 2,500-\$33,600	\$ 9,150	\$ 9,250	1
Transportation equipment and parts	7	\$12,500-\$30,600	\$23,650	\$27,000	14

¹Based on amount paid to average or most representative board member(s) in each company, as determined and reported by respondents. Figures assume attendance at all meetings of board and assigned committees. N/A = not available.

Table 3: Total Annual Compensation (Regular Board Service Plus Committee Service) to Representative Outside Directors in 432 Manufacturing Companies, by Company Size¹

Company Size by Sales (Millions of Dollars)	Number of Companies	Range of Compensation	1985 Median Annual Compensation (455 Companies)	1986 Median Annual Compensation (432 Companies)	Percent Increase (Decrease)
Under \$25	14	\$ 1,600-\$20,000	\$ 5,000	\$ 6,000	20%
25-49	12	\$ 4,000-\$16,000	\$13,000	\$11,350	(13)
50-99	26	\$ 5,000-\$22,000	\$11,500	\$10,950	(5)
100-149	26	\$ 4,500-\$32,000	\$11,500	\$12,500	9
150-199	20	\$ 2,500-\$32,000	\$13,000	\$12,050	(7)
200-349	58	\$ 3,200-\$29,200	\$14,150	\$15,350	8
350-499	29	\$ 9,000-\$36,000	\$15,900	\$16,000	1
500-749	40	\$10,000-\$33,000	\$17,500	\$17,000	(3)
750-999	24	\$10,000-\$34,100	\$22,000	\$22,900	4
1,000-1,999	71	\$10,000-\$40,250	\$22,000	\$24,500	11
2,000-2,999	21	\$21,000-\$37,450	\$25,500	\$27,000	6
3,000-4,999	33	\$16,000-\$47,000	\$29,100	\$31,200	7
5,000 and over	58	\$22,625-\$54,000	\$33,200	\$34,358	3

¹Based on amount paid to average or most representative board member(s) in each company, as determined and reported by respondents. Figures assume attendance at all meetings of board and assigned committees.

Table 4: Total Annual Compensation (Regular Board Service Plus Committee Service) to Representative Outside Directors in 205 Financial Companies, by Industry¹

Industry	Number of Companies	Range of Compensation	1985 Median Annual Compensation (202 Companies)	1986 Median Annual Compensation (205 Companies)	Percent Increase (Decrease)
Bank holding company	82	\$1,000-\$44,500	\$15,000	\$17,000	13%
Commercial banking	20	\$4,000-\$26,400	\$12,850	\$14,163	10
Insurance—mutual fire and casualty	5	\$3,000-\$21,900	\$12,000	\$15,000	25
Insurance—stock fire and casualty	15	\$4,500-\$40,000	\$21,000	\$16,000	(24)
Insurance—mutual life	21	\$9,000-\$68,750	\$27,500	\$27,500	—
Insurance—stock life	17	\$4,250-\$48,800	\$12,950	\$14,000	8
Investment company	9	\$2,000-\$19,750	\$11,400	\$11,250	(1)
Miscellaneous financial service	36	\$4,500-\$36,000	\$17,500	\$19,800	13

¹Based on amount paid to average or most representative board member(s) in each company, as determined and reported by respondents. Figures assume attendance at all meetings of board and assigned committees.

Table 5: Total Annual Compensation (Regular Board Service Plus Committee Service) to Representative Outside Directors in 205 Financial Companies, by Company Size¹

Company Size by Assets (Millions of Dollars)	Number of Companies	Range of Compensation	1985 Median Annual Compensation (200 Companies)	1986 Median Annual Compensation (205 Companies)	Percent Increase (Decrease)
Under \$100	12	\$2,000-\$35,700	\$10,250	\$ 7,900	(23)%
100-149	9	\$3,000-\$36,000	\$11,150	\$10,600	(5)
150-199	5	\$9,400-\$19,750	\$ 6,450	\$15,000	133
200-349	12	\$1,000-\$24,600	\$ 6,650	\$10,425	57
350-499	8	\$2,800-\$23,000	\$10,450	\$11,550	11
500-749	8	\$4,000-\$28,000	\$ 7,500	\$ 7,800	4
750-999	8	\$3,850-\$30,000	\$11,250	\$10,700	(5)
1,000-1,999	22	\$1,750-\$27,500	\$14,675	\$13,400	(9)
2,000-2,999	18	\$7,800-\$34,500	\$14,125	\$12,450	(12)
3,000-4,999	30	\$4,600-\$32,000	\$14,975	\$17,350	16
5,000 and over	73	\$9,600-\$68,750	\$23,930	\$24,500	2

¹Based on amount paid to average or most representative board member(s) in each company, as determined and reported by respondents. Figures assume attendance at all meetings of board and assigned committees.

Table 6: Total Annual Compensation (Regular Board Service Plus Committee Service) to Representative Outside Directors in 291 Nonfinancial Service Companies, by Industry¹

Industry	Number of Companies	Range of Compensation	1985 Median Annual Compensation (295 Companies)	1986 Median Annual Compensation (291 Companies)	Percent Increase (Decrease)
Conglomerate or widely diversified (mostly nonmanufacturing)	16	\$7,000-\$50,000	\$27,188	\$20,800	(23)%
Holding company ²	31	\$4,000-\$46,400	\$18,750	\$19,700	6
Merchandising—retail	27	\$7,600-\$45,000	\$20,000	\$22,700	14
Merchandising—wholesale	10	\$5,800-\$21,750	\$15,000	\$13,725	(9)
Mining	8	\$6,300-\$26,800	\$14,363	\$19,250	34
Miscellaneous services ³	56	\$2,500-\$42,500	\$13,800	\$17,500	27
Public utility	116	\$4,000-\$42,700	\$15,600	\$15,520	—
Transportation (including pipeline)	27	\$2,500-\$39,000	\$21,000	\$24,500	17

¹Based on amount paid to average or most representative board member(s) in each company, as determined and reported by respondents. Figures assume attendance at all meetings of board and assigned committees.

²Excluding bank holding companies.

³Includes such industries as communications, consulting, health care, hotels, maintenance.

Table 7: Total Annual Compensation (Regular Board Service Plus Committee Service) to Representative Outside Directors in 291 Nonfinancial Service Companies, by Company Size¹

<i>Company Size by Sales (Millions of Dollars)</i>	<i>Number of Companies</i>	<i>Range of Compensation</i>	<i>1985 Median Annual Compensation (296 Companies)</i>	<i>1986 Median Annual Compensation (291 Companies)</i>	<i>Percent Increase (Decrease)</i>
Under \$50	17	\$ 2,500-\$28,000	N/A	\$ 7,100	N/A
50-99	20	\$ 3,800-\$26,000	\$ 8,900	\$10,000	12%
100-149	12	\$ 7,600-\$20,600	\$10,000	\$13,000	30
150-199	10	\$12,000-\$35,500	\$14,213	\$17,000	20
200-349	27	\$ 7,200-\$32,100	\$15,950	\$15,000	(6)
350-499	28	\$ 2,500-\$34,750	\$11,600	\$13,300	15
500-749	33	\$ 7,700-\$31,100	\$12,400	\$13,600	10
750-999	23	\$ 6,000-\$24,400	\$17,375	\$17,000	2
1,000-1,999	50	\$ 5,800-\$42,700	\$19,500	\$20,700	6
2,000-2,999	16	\$12,000-\$50,000	\$24,100	\$25,225	5
3,000-4,999	30	\$ 6,000-\$39,400	\$24,400	\$26,525	11
5,000 and over	25	\$21,000-\$46,400	\$27,288	\$31,200	14

¹Based on amount paid to average or most representative board member(s) in each company, as determined and reported by respondents. Figures assume attendance at all meetings of board and assigned committees. N/A = not available.

Table 8: Total Annual Compensation (Regular Board Service Plus Committee Service) to Representative Outside Directors in 432 Manufacturing Companies, by Geographic Region¹

<i>Region²</i>	<i>Number of Companies</i>	<i>Median Total Potential Annual Compensation</i>	<i>Percentage Above (Below) Overall Median</i>	<i>Medians of Largest Companies (\$3 billion in sales)</i>
New-England	41	\$24,250	15%	\$36,000
Mid-Atlantic	79	\$24,200	15	\$35,000
Central Industrial States	142	\$21,200	1	\$32,000
Plains States	23	\$21,000	0	\$34,715
Overall median all manufacturing companies:	(432)	(\$21,000)		
Upper Southeast	26	\$18,300	(13)	\$31,650
Lower Southeast	23	\$16,800	(20)	\$34,000
Pacific	52	\$16,000	(24)	\$32,000
Southwest	33	\$16,000	(24)	\$28,625
Mountain	13	\$12,000	(43)	—
Difference between highest and lowest medians		\$12,250		\$ 7,375

¹Based on amount paid to average or most representative board member(s) in each company, as determined and reported by respondents. Figures assume attendance at all meetings of board and assigned committees.

²See box on p. 3 for states comprising each region.

Table 9: Total Annual Compensation (Regular Board Service Plus Committee Service) to Representative Outside Directors in 205 Financial Companies, by Geographic Region¹

<i>Region²</i>	<i>Number of Companies</i>	<i>Median Total Potential Annual Compensation</i>	<i>Percentage Above (Below) Overall Median</i>	<i>Medians of Largest Companies (\$3 billion in sales)</i>
Mid-Atlantic	35	\$23,000	34%	\$31,250
New England	26	\$22,350	30	\$27,350
Pacific	33	\$18,000	4	\$22,100
Southwest	9	\$18,000	4	\$20,250
Plains States	9	\$17,885	3	\$22,000
Overall median all financial companies:	(205)	(\$17,200)		
Central Industrial States	41	\$15,000	(10)	\$21,400
Upper Southeast	34	\$14,300	(17)	\$18,750
Lower Southeast	13	\$14,000	(19)	\$21,500
Mountain	5	\$11,000	(36)	\$17,313
Difference between highest and lowest medians		\$12,000		\$13,937

¹Based on amount paid to *average or most representative board member(s)* in each company, as determined and reported by respondents. Figures assume attendance at all meetings of board and assigned committees.

²See box on p. 3 for states comprising each region.

Table 10: Total Annual Compensation (Regular Board Service Plus Committee Service) to Representative Outside Directors in 291 Nonfinancial Service Companies, by Geographic Region¹

<i>Region²</i>	<i>Number of Companies</i>	<i>Median Total Potential Annual Compensation</i>	<i>Percentage Above (Below) Overall Median</i>	<i>Medians of Largest Companies (\$3 billion in sales)</i>
Mid-Atlantic	38	\$21,100	17%	\$29,900
Lower Southeast	17	\$19,750	10	\$27,400
Upper Southeast	31	\$19,000	6	\$28,125
Southwest	38	\$18,575	3	\$29,500
Central Industrial States	65	\$18,000	0	\$31,900
Overall median all nonfinancial service companies:	(291)	(\$18,000)		
Pacific	44	\$17,850	(1)	\$27,750
Mountain	16	\$16,325	(9)	\$24,700
New England	23	\$15,400	(14)	\$29,400
Plains States	19	\$15,200	(16)	\$28,375
Difference between highest and lowest medians		\$ 5,900		\$ 7,200

¹Based on amount paid to *average or most representative board member(s)* in each company, as determined and reported by respondents. Figures assume attendance at all meetings of board and assigned committees.

²See box on p. 3 for states comprising each region.

Chapter 2

Forms and Amounts of Compensation for Regular Board Service

THIS CHAPTER deals with one of the two major components of total annual compensation for directors: compensation for regular, or full board, service. (Board *committee* pay, the other component of the total, is covered in Chapter 3.) The information includes the form(s) of payment made to directors for board service—annual retainers, per-meeting fees, or both—and the size (dollar amounts) of these payments. It also includes calculations on *total* board-only compensation, and on the proportion that board-only pay is of total annual compensation with committee pay included. Finally, there are tables showing frequency of board meetings by industry category and by company size.

Forms of Compensation for Regular Board Service

Retainers are the major component of director compensation, as Table 11 clearly shows. Almost all companies use an annual retainer, and most also pay a fee for each board meeting attended. Financial firms use retainers somewhat less (92 percent) than do firms in the other two categories. Sixteen percent of the manufacturers use *only* a retainer to cover basic service and pay no attendance fee.

Payment in stock: 36 companies (4 percent) use company stock to some extent as a means of paying outside directors for their service on the board. For purposes of this discussion, *payment* refers to the actual paying out of shares to directors in addition to or in lieu of cash compensation during the years of active board service. It does not refer to awards of options to buy stock, nor to stock equivalents that are features of many deferred compensation plans but are not collectible until after retirement from the board; both of these practices are treated as *benefits* in this report and are covered in Chapter 4.

All but a few of the companies that use stock as a means of compensating outside directors supplied at least a brief description of their plans. For just about a third, payment of stock is made at the option of the individual director. While the option in most cases would appear to be either all stock or all cash, one company also offers a third alternative of one-half stock and one-half cash, and in another case, a director can choose stock "in whole or in part."

Another third of the companies that use stock in compensating directors do so as a matter of policy rather than as an option. Some pay a pre-determined number of shares (specifically mentioned: 100, 200, 500, 960). A smaller number have set a dollar amount—such as \$5,000, in one case—and pay stock equal in value to that amount. Directors of one company receive the first half of their annual retainer in cash, the second half in stock. One company that pays 200 shares also pays the market-value equivalent of that number of shares in cash, as a supplemental retainer. One company makes its payment of 500 shares on December 1, a kind of seasonal bonus.

The remaining firms that pay stock to board members have worked out individualized arrangements. For example, one company awards each director a one-time stock payment worth \$20,000 but vested over three years. At another company, directors get an unspecified amount of stock as an incentive payment if the company's goals for a fiscal year are achieved. And one firm pays 200 shares for each year of board service, with actual delivery of the shares made only every five years.

Some companies also promote stock ownership by outside directors by making it available at favorable prices through participation in a benefit plan. Thus, 69 companies offer directors a stock-option plan, and five offer participation in a stock-purchase plan. (See Table 31, page 18.)

Amounts of Annual Retainers

Table 12 summarizes information on the size of retainers paid for regular board service. It shows the range and the median of retainers reported in the 1986 survey, for the three major industry groups.

The median annual retainer for manufacturing companies that pay both a retainer and a fee increased by \$1,000 and is now \$13,000. The median for nonfinancial service companies is up by \$1,500 to \$11,500. The biggest increase, \$1,600, was among financial firms, bringing the median in that category to \$10,000.

Table 13 gives a more detailed picture of the sizes of retain-

ers paid. The table provides an analysis by company size. In the process, it illustrates that:

- *Retainer size tends to increase with company size*, especially in manufacturing firms. The relationship is least marked in the financial category. However, 36 percent of the financial firms are bunched in the largest size group—\$5 billion in assets—which has by far the largest median retainer figure for the category.

- *Manufacturing companies pay the highest retainers*, except in companies below \$200 million in sales.

Amounts of Per-meeting Fees

Table 14 deals with per-meeting fees for regular board meetings. The key figure is the median fee for companies that pay both a fee and a retainer. That figure increased in all three industry categories; for manufacturing companies, the median fee is now \$750 per meeting.

Total Board-only Compensation

This section presents information on total annual pay for regular board service *only*, leaving out payment (if any) that is specifically for committee service. The formula for the

board-only compensation figure that was computed for each company for use in this section is simple:

Annual retainer for regular board service + (board meeting fee x number of board meetings in a year)

Table 15 presents median board-only figures by company size, in the three major industry categories. For the median firm in each of the three categories, Table 16 shows board-only pay as a percent of *total* pay. It indicates that directors of financial firms get a slightly higher proportion of their pay on the basis of committee service than is the case in other industries.

Frequency of Board Meetings

In general, financial companies hold more board meetings than do other kinds of firms (see Table 17). The median number of meetings is unchanged at six for manufacturing companies. For financial companies, the median decreased to eight (from ten), and it rose from six to seven for nonfinancial service companies.

Table 18, which shows frequency of board meetings for six company size categories, indicates that the median number of meetings is larger as companies get larger, except among financial firms.

Table 11: Forms of Compensation for Regular Board Service

Forms of Compensation	Percent of Companies Using Each		
	431 Manufacturing Companies	205 Financial Companies	291 Nonfinancial Service Companies
Annual retainer:			
Both retainer and per-meeting fee	80%	86%	87%
Retainer only	16	6	10
Total paying retainer	96%	92%	97%
Per-meeting fee only	4	8	3
Totals	100%	100%	100%

Table 12: Retainers Paid for Regular Board Service,¹ by Industry Category

Industry Category	Number of Companies by Method of Payment	Range of Retainers	Median Retainer	Changes in Median from 1985
Manufacturing	345 that pay retainer and fee 67 that pay retainer only	\$2,000–\$35,100 \$2,900–\$45,000	\$13,000 \$15,000	+ \$1,000 + \$2,250
Financial	176 that pay retainer and fee 12 that pay retainer only	\$1,000–\$21,000 \$1,000–\$30,000	\$10,000 \$ 9,000	+ \$1,600 none
Nonfinancial service	252 that pay retainer and fee 30 that pay retainer only	\$1,800–\$30,000 \$4,000–\$30,000	\$11,500 \$14,500	+ \$1,500 none

¹Annual retainers; fees for board meetings and all extra payments for committee service are excluded.

Table 13: Retainers Paid for Regular Board Service, by Company Size

Company Size by Sales ¹ (Millions of Dollars)	Ranges and Medians of Retainers Paid								
	Manufacturing			Financial			Nonfinancial Service		
	Number of Companies	Range	Median	Number of Companies	Range	Median	Number of Companies	Range	Median
Under \$100	44	\$ 2,000-\$20,000	\$ 6,000	7	\$1,000-\$25,400	\$ 4,500	32	\$ 1,800-\$15,000	\$ 6,000
100-149	24	\$ 2,000-\$20,000	\$ 7,750	9	\$3,000-\$20,000	\$ 6,000	11	\$ 4,000-\$15,000	\$10,000
150-199	18	\$ 3,000-\$15,000	\$ 8,000	5	\$3,000-\$12,000	\$ 6,000	9	\$ 5,000-\$24,000	\$12,000
200-349	56	\$ 3,000-\$20,000	\$10,000	11	\$1,000-\$15,000	\$ 4,000	27	\$ 3,600-\$20,000	\$10,000
350-499	28	\$ 4,000-\$36,000	\$11,500	7	\$2,000-\$10,000	\$ 8,000	27	\$ 4,000-\$19,000	\$ 7,500
500-749	38	\$ 5,000-\$30,000	\$12,500	5	\$2,500-\$18,000	\$ 7,000	33	\$ 2,000-\$30,000	\$ 7,500
750-999	24	\$ 6,000-\$23,000	\$14,500	6	\$2,000-\$16,000	\$ 6,500	23	\$ 3,000-\$20,000	\$10,000
1,000-1,999	71	\$ 5,000-\$35,000	\$15,000	18	\$1,500-\$18,000	\$ 6,000	50	\$ 2,400-\$30,000	\$12,000
2,000-2,999	20	\$12,000-\$22,500	\$15,500	18	\$3,000-\$20,000	\$ 6,000	16	\$11,000-\$22,000	\$16,000
3,000-4,999	33	\$12,000-\$25,000	\$20,000	30	\$3,000-\$20,000	\$10,000	29	\$10,000-\$25,000	\$16,000
5,000 and over	57	\$ 2,000-\$45,000	\$20,000	72	\$2,000-\$30,000	\$13,500	25	\$14,000-\$30,000	\$18,000

¹By assets for financial companies.

Table 14: Fees Paid for Regular Board Meetings

Industry Category	Companies by Method of Payment	Range of Fees	Median Fee	Changes from 1985
Manufacturing	344 that pay fee and retainer	\$100-\$2,500	\$750	+ \$ 50
	19 that pay fee only	\$200-\$3,000	\$750	+ \$ 75
Financial	176 that pay fee and retainer	\$100-\$4,500	\$575	+ \$ 75
	17 that pay fee only	\$100-\$2,000	\$400	0
Nonfinancial service	253 that pay fee and retainer	\$200-\$2,000	\$600	+ \$100
	8 that pay fee only	\$500-\$2,000	\$975	+ \$475

Table 15: Total Board-only Annual Compensation,¹ by Company Size

Company Size by Sales ² (Millions of Dollars)	Manufacturing		Financial		Nonfinancial Service	
	Number of Companies	Median Board-Only Compensation	Number of Companies	Median Board-Only Compensation	Number of Companies	Median Board-Only Compensation
Under \$10	2	\$ 7,775	—	—	4	\$ 8,000
10-24	1	\$ 6,800	1	\$ 2,000	4	\$ 8,675
25-49	9	\$ 8,000	1	\$ 5,600	3	\$ 8,000
50-99	17	\$ 9,500	2	\$ 4,875	14	\$ 8,450
100-149	21	\$11,600	8	\$10,000	8	\$10,550
150-199	16	\$11,250	5	\$ 9,000	7	\$16,000
200-349	45	\$12,950	10	\$ 8,600	25	\$13,000
350-499	21	\$14,500	7	\$10,500	27	\$10,900
500-749	33	\$16,000	5	\$10,000	30	\$12,050
750-999	20	\$18,875	5	\$10,000	21	\$15,000
1,000-1,999	60	\$20,875	16	\$12,650	41	\$16,800
2,000-2,999	19	\$23,000	17	\$10,500	14	\$20,500
3,000-4,999	30	\$26,800	30	\$14,000	29	\$23,250
5,000 and over	50	\$27,300	69	\$19,500	25	\$25,700

¹Annual compensation for regular board service only, excluding any pay for committee service. (In some companies this payment is intended to compensate directors for committee service as well as full board service; 11 percent of respondents do not pay separately for committees.)

²By assets for financial companies.

Table 16: Board-only Compensation as a Percentage of Total Compensation, Including Committees

<i>Industry Category</i>	<i>Median Percentage</i>
Manufacturing	85%
Financial	81%
Nonfinancial service	87%

Table 17: Number of Board Meetings Per Year, by Industry Category

<i>Industry Category</i>	<i>Range of Meeting Frequencies</i>	<i>Median</i>	<i>Mode</i>
Manufacturing	2-13	6	6
Financial	4-18	8	12
Nonfinancial service	2-14	7	6

Table 18: Number of Board Meetings Per Year, by Company Size and Industry

<i>Company Size by Sales¹ (Millions of Dollars)</i>	<i>Frequency of Board Meetings</i>								
	<i>Manufacturing</i>			<i>Financial</i>			<i>Nonfinancial Service</i>		
	<i>Range</i>	<i>Median</i>	<i>Mode</i>	<i>Range</i>	<i>Median</i>	<i>Mode</i>	<i>Range</i>	<i>Median</i>	<i>Mode</i>
Under \$100	3-12	5	4	4-12	7.5	4,12	3-12	5	4
100-199	4-12	5	4	4-13	5.5	4	4-12	5	4
200-499	2-12	6	6	4-18	12	12	4-13	6	6
500-999	4-12	6	4	4-12	5	4	2-14	7	5
1,000-2,999	4-13	8	5,6	4-16	11.5	12	4-14	8	6
3,000 and over	5-13	9	10	4-15	8	12	4-14	10	10,12

¹By assets for financial companies.

Chapter 3

Compensation for Service on Board Committees

THIS CHAPTER presents information on compensation paid specifically for serving on board committees—payment in addition to remuneration for regular board service. It includes findings on compensation to chairmen of board committees, where that responsibility is rewarded with higher pay. The chapter also contains data on how many committees the surveyed companies have, and how often they meet.

Prevalence of Payment for Committees

The overwhelming majority of respondents (99 percent) have at least one board committee. Table 19 summarizes practice concerning payment for committee service and for chairing committees. It indicates that:

- most companies pay directors for committee service;
- a sizable minority pays chairmen of committees more than committee members receive.

There has been little change in these practices since 1985.

Methods of Payment for Board Committees

Table 20, which shows the method of payment used to compensate directors for committee service (fee, retainer, or both), indicates that the per-meeting fee is by far the most common form of payment for this purpose, as it customarily has been.

Amounts of Payment for Board Committees

Dollar figures for service on principal board committees in the three major industry categories are presented in Tables 21, 22, and 23. The tables show ranges and medians of fees and retainers paid for each type of committee.

A median fee of \$500 for committee meetings occurs most often except for manufacturing companies, where a median fee of \$600 is more typical (and the median for some committees is even higher).

Only a minority of companies use an annual retainer to pay for board committee service. The tables show that the median retainers for most committees range between \$2,000 and \$3,000; \$2,500 occurs more often than any other median, except in nonfinancial service companies, where medians have a wide range.

Forms and Amounts of Payment to Chairmen of Board Committees

Table 19 shows that 43 percent of companies with committees pay committee chairmen an amount greater than others on the committee receive, or a payment where regular members receive none. This figure is unchanged from last year. Tables 24, 25, and 26 spell out the forms and amounts of compensation paid for chairing principal committees, as reported by companies in the three major industry categories. Some highlights from these tables:

- The tables do not point to any particular change in medians for either annual retainers or per-meeting fees for committee chairmen from 1985.
- Median per-meeting fees (but not retainers) paid to committee chairmen continue to be lowest in financial firms.
- The highest retainers (top-of-the-range figures, not medians) are paid to chairmen of executive, finance and audit committees; amounts of \$20,000 or more are reported for such chairmen.
- Whereas the *fee* is the most common vehicle for paying for general committee service, the *retainer* is favored for compensating committee chairmen.

Number of Committees Per Company

From the point of view of the individual director, compensation as a member of a particular board is affected by how many committees he or she serves on. This can depend, in turn, on how many different committees that board has.

Tables 27 and 28 deal with the number of committees reported per company, the first by industry category, the second by company size. Financial companies have the highest number of committees per company, on average (Table 27). And over half (56 percent) of the financial firms have *more than four* board committees, whereas only 43 percent of manufacturers and 38 percent of nonfinancial service firms have that many. The figures in Table 28 show that, for manufacturers, the larger the company, the more board committees it is likely to have. This pattern is not as consistent in the other two industry categories, but a median of five committees per company is common to the largest firms in all three categories.

How Often Committees Meet

Table 29 shows the frequency with which the 12 most common board committees meet. The most common median meeting frequency among these committees is three times a year, followed by four times, and then twice. In all three industry groups, the highest number of meetings reported (ac-

tual, not median) is for the executive committee, which meets weekly in some firms. Some finance committees also meet considerably more often than other board committees do. Of the four committees found in a majority of responding companies—audit, compensation, executive and nominating—the nominating committee appears to meet least often; once a year is the median except in manufacturing.

Table 19: Incidence of Payment to Members and Chairmen of Board Committees

Practice	1986		1985 Percent ¹
	Number of Companies	Percent ¹	
Pay extra for committee service	825	89%	91%
Pay chairmen of committee(s) more than committee members	399	43%	43%

¹Percentage based on number of companies that have or had committees.

Table 20: Methods of Payment for Principal Board Committees

Committee	Total Companies Paying	Methods of Payment Used (by Number of Companies)		
		Fee Only	Fee and Retainer	Retainer Only
Audit	800	678	70	52
Compensation	682	589	52	41
Executive	530	454	54	22
Nominating	411	359	33	19
Finance	229	201	18	10
Employee Benefits	151	137	11	3
Public Policy	97	83	11	3
Stock Option	77	67	7	3
Investment	62	56	4	2
Planning	60	54	4	2
Human Resources	46	44	2	—
Contributions	21	19	2	—

Table 21: Forms and Amounts of Payment for Principal Board Committees, Manufacturing Companies

Committee	Forms and Amounts of Payment					
	Fees			Retainers		
	Number of Companies	Range of Fees	Median	Number of Companies	Range of Retainers	Median
Audit	330	\$100–\$2,000	\$600	69	\$ 500–\$12,000	\$2,500
Compensation	306	\$100–\$2,000	\$600	56	\$1,000–\$10,000	\$2,500
Executive	201	\$200–\$2,000	\$650	34	\$1,000–\$75,000	\$2,750
Nominating	185	\$100–\$1,500	\$600	36	\$1,000–\$12,000	\$2,500
Finance	94	\$150–\$1,500	\$675	18	\$1,000–\$19,200	\$2,500
Employee Benefits	72	\$200–\$1,000	\$600	8	\$1,500–\$ 5,500	\$2,500
Public Policy	39	\$400–\$1,000	\$750	10	\$1,000–\$10,000	\$2,000
Stock Option	35	\$100–\$1,000	\$600	6	\$1,000–\$12,000	\$3,000
Planning	18	\$300–\$ 900	\$575	4	\$1,000–\$ 9,000	\$1,575
Investment	12	\$400–\$1,000	\$600	2	\$1,500–\$ 5,000	\$3,250
Human Resources	10	\$500–\$ 850	\$725	1	\$ 1,150	\$1,150
Contributions	6	\$500–\$ 900	\$800	1	\$ 3,000	\$3,000

Table 22: Forms and Amounts of Payment for Principal Board Committees, Financial Companies

Committee	Forms and Amounts of Payment					
	Fees			Retainers		
	Number of Companies	Range of Fees	Median	Number of Companies	Range of Retainers	Median
Audit	174	\$ 50-\$1,500	\$500	29	\$ 500-\$10,000	\$ 2,500
Executive	145	\$ 50-\$1,500	\$500	14	\$ 750-\$18,200	\$ 2,500
Compensation	131	\$ 50-\$1,500	\$500	17	\$1,000-\$ 5,000	\$ 2,500
Nominating	82	\$100-\$1,000	\$500	6	\$ 500-\$ 4,000	\$ 2,250
Finance	42	\$100-\$1,000	\$500	8	\$ 750-\$12,000	\$ 3,500
Investment	35	\$ 50-\$1,500	\$500	4	\$2,000-\$18,200	\$10,500
Employee Benefits	25	\$150-\$1,000	\$450	4	\$1,500-\$ 4,000	\$ 1,750
Public Policy	24	\$250-\$ 950	\$600	3	\$ 750-\$ 2,000	\$ 2,000
Human Resources	22	\$150-\$ 750	\$500	1	\$ 750	\$ 750
Stock Option	20	\$ 50-\$1,000	\$500	1	\$ 5,000	\$ 5,000
Planning	17	\$325-\$1,000	\$500	1	\$ 6,300	\$ 6,300
Contributions	8	\$250-\$ 500	\$450	1	\$ 3,000	\$ 3,000

Table 23: Forms and Amounts of Payment for Principal Board Committees, Nonfinancial Service Companies

Committee	Forms and Amounts of Payment					
	Fees			Retainers		
	Number of Companies	Range of Fees	Median	Number of Companies	Range of Retainers	Median
Audit	216	\$125-\$1,800	\$500	22	\$ 500-\$16,000	\$ 1,750
Compensation	187	\$100-\$1,000	\$500	19	\$ 500-\$ 5,000	\$ 1,600
Executive	140	\$ 50-\$2,400	\$500	25	\$ 200-\$20,000	\$ 2,000
Nominating	113	\$100-\$1,250	\$500	9	\$ 500-\$16,000	\$ 1,000
Finance	73	\$ 20-\$1,000	\$500	2	\$1,000-\$ 1,500	\$ 1,250
Employee Benefits	44	\$100-\$1,000	\$500	2	\$1,000-\$ 3,650	\$ 2,325
Public Policy	26	\$280-\$ 900	\$600	1	\$ 1,000	\$ 1,000
Planning	20	\$200-\$1,000	\$500	1	\$20,000	\$20,000
Stock Option	17	\$100-\$1,250	\$400	3	\$2,000-\$16,000	\$ 5,000
Human Resources	11	\$400-\$ 800	\$600	0	—	—
Investment	11	\$250-\$ 850	\$550	0	—	—
Contributions	6	\$400-\$ 600	\$500	0	—	—

Table 24: Compensation of Chairmen of Board Committees, Manufacturing Companies¹

Committee	Number of Companies that Pay Chairmen A Retainer			Number of Companies that Pay Chairmen A Fee		
		Range of Retainers	Median Retainer		Range of Fees	Median Fee
Audit	139	\$ 750-\$ 20,000	\$2,500	44	\$300-\$3,000	\$ 800
Compensation	119	\$ 750-\$ 19,200	\$2,500	40	\$300-\$3,000	\$ 775
Nominating	77	\$1,000-\$ 13,000	\$2,000	23	\$300-\$2,000	\$ 800
Executive	47	\$1,000-\$ 34,000	\$2,800	19	\$500-\$3,000	\$ 800
Finance	40	\$1,000-\$121,200	\$2,650	14	\$500-\$2,000	\$ 775
Employee Benefits	31	\$1,000-\$ 7,500	\$2,500	15	\$275-\$1,500	\$ 800
Public Policy	21	\$1,000-\$ 11,000	\$3,000	5	\$700-\$2,000	\$ 900
Planning	7	\$2,000-\$ 6,000	\$2,000	2	\$500-\$ 800	\$ 650
Investment	3	\$2,000-\$ 2,500	\$2,000	3	\$600-\$2,000	\$1,250
Stock Option	3	\$2,000-\$ 13,000	\$5,000	3	\$750-\$ 900	\$ 800
Human Resources	4	\$1,500-\$ 3,000	\$1,875	2	\$600-\$1,000	\$ 800
Contributions	2	\$2,500-\$ 3,000	\$2,750	2	\$600-\$ 950	\$ 775

¹Includes only chairmen who are paid more than regular committee members. Some committee chairmen included in this table are employee directors; how many and on what committees can not be determined from the data.

Table 25: Compensation of Chairmen of Board Committees, Financial Companies¹

<i>Committee</i>	<i>Number of Companies that Pay Chairmen A Retainer</i>	<i>Range of Retainers</i>	<i>Median Retainer</i>	<i>Number of Companies that Pay Chairmen A Fee</i>	<i>Range of Fees</i>	<i>Median Fee</i>
Audit	65	\$ 500-\$15,000	\$2,500	33	\$200-\$1,500	\$ 600
Compensation	41	\$ 500-\$10,000	\$2,000	22	\$200-\$1,500	\$ 600
Nominating	22	\$1,000-\$ 8,000	\$2,000	10	\$250-\$1,500	\$ 550
Executive	11	\$ 600-\$10,000	\$2,250	12	\$400-\$1,500	\$ 625
Finance	9	\$1,000-\$25,000	\$3,500	10	\$325-\$1,500	\$ 825
Public Policy	15	\$1,000-\$ 7,500	\$2,500	3	\$400-\$1,500	\$ 650
Human Resources	9	\$1,250-\$ 5,000	\$2,250	6	\$200-\$ 900	\$ 600
Employee Benefits	3	\$1,000-\$ 2,500	\$1,800	5	\$300-\$ 900	\$ 400
Investment	2	\$2,000-\$15,000	\$8,500	5	\$200-\$1,000	\$ 500
Planning	2	\$1,000-\$ 2,500	\$1,750	3	\$500-\$1,500	\$ 600
Stock Option	1	\$ 1,000	\$1,000	3	\$650-\$ 900	\$ 775
Contributions	3	\$1,000-\$ 4,000	\$3,000	0	—	—

¹Includes only chairmen who are paid more than regular committee members. Some committee chairmen included in this table are employee directors; how many and on what committees can not be determined from the data.

Table 26: Compensation of Chairmen of Board Committees, Nonfinancial Service Companies¹

<i>Committee</i>	<i>Number of Companies that Pay Chairmen A Retainer</i>	<i>Range of Retainers</i>	<i>Median Retainer</i>	<i>Number of Companies that Pay Chairmen A Fee</i>	<i>Range of Fees</i>	<i>Median Fee</i>
Audit	77	\$ 500-\$14,000	\$2,400	28	\$ 475-\$1,500	\$ 825
Compensation	63	\$ 500-\$10,000	\$2,200	24	\$ 500-\$1,500	\$ 825
Nominating	38	\$ 500-\$ 5,000	\$2,000	15	\$ 475-\$1,500	\$ 850
Finance	28	\$ 500-\$20,000	\$2,500	4	\$1,000-\$1,500	\$1,000
Executive	18	\$ 500-\$30,250	\$2,750	7	\$ 500-\$1,250	\$ 750
Employee Benefits	14	\$ 500-\$ 5,500	\$2,500	3	\$ 800-\$1,500	\$1,250
Public Policy	15	\$1,500-\$ 5,000	\$2,500	2	\$1,000-\$1,500	\$1,250
Planning	9	\$ 500-\$30,000	\$2,000	2	\$ 475-\$ 800	\$ 638
Investment	5	\$1,000-\$ 5,000	\$2,400	2	\$ 650-\$1,100	\$ 875
Human Resources	5	\$1,000-\$ 5,000	\$2,500	1	\$ 475	\$ 475
Stock Option	3	\$3,000-\$10,000	\$4,000	2	\$ 500-\$1,000	\$ 750

¹Includes only chairmen who are paid more than regular committee members. Some committee chairmen included in this table are employee directors; how many and on what committees can not be determined from the data.

Table 27: Number of Committees Reported Per Company, by Industry Category

<i>Number of Committees</i>	<i>Total Number of Companies Reporting Each</i>		<i>Manufacturing</i>		<i>Financial</i>		<i>Nonfinancial Service</i>	
			<i>Number of Companies</i>	<i>Percent¹</i>	<i>Number of Companies</i>	<i>Percent¹</i>	<i>Number of Companies</i>	<i>Percent¹</i>
1-2	107	12%	49	11%	18	9%	40	14%
3-4	416	45	203	48	72	35	141	48
5-6	325	35	145	34	94	46	86	30
7-8	69	8	28	7	18	9	23	8
9-10	4	—	2	—	2	1	0	—
Totals	921	100%	427	100%	204	100%	290	100% ^a

^aDetails do not add to 100% because of rounding.

Table 28: Number of Committees Per Company, by Company Size

	Company Size Categories ¹ (Millions of Dollars)					
	Under \$100	\$100-199	\$200-499	\$500-999	\$1,000-2,999	\$3,000 and over
<i>Manufacturing Companies</i>						
Number of companies in each category . . .	51	46	84	64	91	91
Range of number of committees reported . .	1-7	1-7	1-7	1-7	1-9	2-10
Median number of committees reported . . .	3	3	4	4	4	5
Mode	3	3	3,4	4	4	5
<i>Financial Companies</i>						
Number of companies in each category . . .	11	14	20	16	40	103
Range of number of committees reported . .	2-5	2-7	1-6	3-7	1-8	2-10
Median number of committees reported . . .	4	4	4	5	5	5
Mode	3,4	2	4	5	5	5
<i>Nonfinancial Service Companies</i>						
Number of companies in each category . . .	37	22	54	56	66	55
Range of number of committees reported . .	1-6	2-6	1-8	1-8	1-7	1-8
Median number of committees reported . . .	3	3	4	4	4	5
Mode	2,3	3	4	4	4	4

¹Measured in sales for manufacturing and nonfinancial services, assets for financial.

Table 29: Number of Meetings Per Year of Principal Committees

Committee	<i>Manufacturing Companies</i>			<i>Financial Companies</i>			<i>Nonfinancial Service Companies</i>		
	<i>Range of Meeting</i>			<i>Range of Meeting</i>			<i>Range of Meeting</i>		
	Frequencies	Median	Mode	Frequencies	Median	Mode	Frequencies	Median	Mode
Audit	1-9	3	2	1-12	4	4	1-17	3	2
Compensation	1-13	3	2,4	1-13	3	4	1-10	3	2
Executive	0-55	2	1	0-52	6	12	0-50	3	3
Nominating	0-6	2	1	0-6	1	1	0-5	1	1
Finance	0-24	4	4	1-52	4	4	0-20	3	2
Employee Benefits	0-13	3	2	1-12	3	2	0-8	3	4
Public Policy	1-10	3	2	1-10	3	2	1-5	3	4
Stock Option	1-12	2	1	1-12	1	1	0-11	1	1
Investment	2-10	4	2,4	1-52	9	12	0-12	4	4
Planning	0-14	3	2	1-10	4	4	0-8	2	2
Human Resources	2-12	4	2	1-6	4	4	0-6	4	4
Contributions	1-6	3	4	1-6	2	1	1-4	2	2

Chapter 4

Benefits for Directors

THE PRACTICE of augmenting outside directors' cash compensation with benefits or perquisites—the so-called “fringes” familiar in the area of executive compensation—has been increasing in recent years, but at a much slower pace than the substantial pay raises received by directors during this same period. The 1986 survey indicates that some benefits posted small gains in prevalence compared to 1985, while others remained essentially unchanged.

How Many Companies Provide Benefits

Overall, 96 percent of the companies in the survey have at least one form of benefit for their outside directors, up slightly from 93 percent last year. This count includes as a benefit directors and officers liability insurance (D&O), which is carried by 88 percent of the respondents. If D&O is not counted as a benefit on the grounds that it has become all but a necessity, then 81 percent of the respondents provide at least one benefit, an increase from 73 percent last year. (For more on D&O, see next column.)

In Table 30, which shows numbers of benefits per company, the median figures indicate that a majority of companies offer their board members more than one kind of benefit. This is especially true for the largest companies, for which the median number of director benefits is three in the case of financial firms, and four in the other two industry categories.

Types of Benefits

Table 31 lists those benefits that were reported by at least 10 companies, divided into benefits that are a form of insurance coverage and those that are not. Only two—D&O insurance and deferral of board compensation—are provided by a majority of companies. Changes in prevalence of most of the various benefits in the table were small (3 percent or less); some did not change at all.

In addition to the benefits shown in the table, there are other, less common examples that have been reported in this and other recent surveys, including the following:

- Life or travel insurance for spouse or dependent;
- Medicare B insurance coverage;

- Kidnap or ransom insurance;
- Nuclear liability insurance;
- Fidelity bond insurance;
- Prescription drug reimbursement;
- Hearing aid reimbursement;
- Cardio-fitness program reimbursement;
- Company-paid credit card;
- Financial counseling, income tax preparation;
- Use of office space, telephone and other services;
- Use of company guest or vacation facilities;
- Paid attendance at seminars, conferences or other meetings.

Some further observations about benefits for directors:

D&O insurance: Essentially, this coverage is designed to reimburse directors should they be sued—as directors—and incur legal and other expenditures as a result. (If the company indemnifies or reimburses the director, then the insurance benefit goes to the company, thus *indirectly* ensuring the director his or her reimbursement.)

Many directors will serve on a board only if they have this protection, and over the past year a number of companies have seen their outside board members resign because D&O coverage was dropped. (For a summary of the insurance problem affecting corporate directors and some possible responses to it, see Jeremy Bacon, *Liability Insurance for Directors*. Perspectives, No. 1, The Conference Board, 1986.)

This survey does not show a drop in coverage in terms of numbers of companies that offer this protection to their directors; in fact, the 88 percent that do so as of 1986 is even slightly higher than last year's 85 percent. But *coverage has declined in dollar terms*, on a broad scale. Table 33 compares reported coverage limits for 1986 and 1985, in the three major industry categories, by six size groups. Both medians and highest reported coverage limits are down in a majority of categories, so that many directors would appear to have less of an insurance umbrella than they did only a year ago.

In a few companies, as shown in Table 31, D&O coverage is augmented by other related kinds of policies, such as those designed to cope specifically with the fiduciary implications of the Employee Retirement Income Security Act (ERISA).

Deferred compensation: Fifty-six percent of this year's respondents—up 5 percent from two years ago, 3 percent from last year—offer their outside board members the option of postponing receipt (and also taxability) of at least part of their board pay until after retirement from the board. This option lets directors provide for retirement income and, in many cases, has the effect of reducing the tax from that which would be paid if the money were received as currently earned. In addition, the company usually pays some form of interest on directors' deferred accounts as they accumulate prior to retirement.¹

¹For information on how deferred compensation plans and retirement plans for directors work, see James K. Brown, *Corporate Directorship Practices: Retirement Pay and Deferred Compensation for Outside Directors*. Research Bulletin No. 115, The Conference Board, 1982.

Pension or retirement payments: A pension payment to outside directors after they retire from the board is a relatively new benefit. Whereas a deferred plan involves optional postponement by the director of earned income, the newer post-retirement plans are pensions that begin only after retirement and without regard to any income that has been deferred during active board service. Eighteen percent of the respondents currently report such a plan, whereas two years ago only 11 percent did.

Because of considerable interest in retirement plans for outside directors, a separate tabulation of the prevalence of such plans, according to company size, is included as Table 32.

Table 30: Number of Benefits for Outside Directors Per Company,¹ by Company Size

Company Size by Sales (Millions of Dollars) ²	Median Number of Benefits Per Company					
	369 Manufacturing Companies		179 Financial Companies		291 Nonfinancial Service Companies	
	Range	Median	Range	Median	Range	Median
Under \$100	0-4	1	0-6	1.5	0-8	2
100-199	0-7	1	0-4	1	1-7	2
200-499	0-7	2	0-3	1	0-6	2
500-999	0-6	2	0-3	2	0-8	2.5
1,000-2,999	0-8	3	0-5	1.5	1-9	3
3,000 and over	1-8	4	0-7	3	1-9	4

¹Not counting directors and officers liability insurance, or reimbursement of expenses of attending meetings.

²Financial companies are measured by assets.

Table 31: Principal Insurance and Other Benefits Provided to Outside Directors¹

Benefit	Number and Percent of Companies Mentioning		
	1986 Number of Companies	1986 Percent	1985 Percent
Insurance:			
Directors and officers liability	814	88%	85%
Travel accident ²	369	40	40
Life	153	17	16
Accidental death and dismemberment	149	16	18
Medical and hospitalization	79	9	7
Dental	21	2	2
Fiduciary/ERISA, other liability ²	16	2	3
Other Benefits:			
Deferred board compensation	322	56%	53%
Matching donations (educational, cultural, philanthropic, other)	327	35	35
Retirement or pension plan	171	18	15
Free or discounted company products or services	95	10	12
Stock options (69), stock purchase plans (5)	74	8	4
Physical examinations	20	2	2

¹Benefits reported by 10 or more companies.

²"General," "comprehensive," "umbrella," "personal excess."

Table 32: Incidence of Retirement Benefit Plans for Outside Directors in 928 Companies, by Company Size

Company Size by Sales (Millions of Dollars) ¹	Provided by	
	Number of Companies	Percent
Under \$100	5	5%
100-199	5	6
200-499	21	13
500-999	24	18
1,000-2,999	39	20
3,000 and over	77	31
Totals	171	18%

¹Financial companies are measured by assets.

Table 33: Limits of Coverage for Directors and Officers Liability Insurance, by Industry Category and Company Size

Company Size by Sales (Millions of Dollars) ¹	D&O Coverage Limits, in Millions of Dollars											
	Manufacturing Companies				Financial Companies				Nonfinancial Service Companies			
	Highest Coverage Limit				Highest Coverage Limit				Highest Coverage Limit			
	Reported		Median		Reported		Median		Reported		Median	
	1985	1986	1985	1986	1985	1986	1985	1986	1985	1986	1985	1986
Under \$100	\$ 50	\$ 35	\$10	\$ 5	\$ 75	\$ 10	\$10	\$ 3	\$ 75	\$ 45	\$10	\$10
100-199	\$ 75	\$ 30	\$10	\$10	\$ 20	\$ 10	\$10	\$ 5	\$ 35	\$ 20	\$12.5	\$ 5
200-499	\$200	\$ 80	\$15	\$15	\$ 30	\$ 20	\$ 8.5	\$ 5	\$100	\$150	\$20	\$15
500-999	\$ 60	\$ 70	\$25	\$15	\$ 40	\$ 20	\$10	\$ 5	\$300	\$110	\$25	\$20
1,000-2,999	\$100	\$100	\$30	\$25	\$100	\$ 50	\$20	\$15	\$150	\$150	\$50	\$30
3,000 and over	\$250	\$250	\$50	\$52.5	\$750	\$110	\$25	\$22.5	\$200	\$115	\$50	\$45

¹Financial companies are measured by assets.

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